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SUBJECT: ENERGY U/S CARD VISIT HIGHLIGHTS BILATERAL ENERGY
SIMILARITIES, CONCERNS

1. SUMMARY: Department of Energy Undersecretary Robert Card stopped in Rome December 10 to meet with key Italian energy sector officials, en route to the COP-9 conference in Milan. Key issues discussed included generation choices, gas supply, greenhouse gas emissions, dependency on energy imports and the absence of nuclear energy production in Italy. Card also raised similarities between the two recent blackouts in the U.S. and Italy. Italian energy officials underscored Italy's excessive dependency on electricity imports and indicated that while plans are underway to add new conventional power plants to the national grid, they believe that nuclear energy would be the most practical way forward. However, they conceded that popular opposition makes this unlikely for the foreseeable future. END SUMMARY.

2. On December 10, U/S Card met separately with Massimo Romano, Director of Institutional and International Affairs for Italian energy producer ENEL; Carlo Bollino, the Chairman of Italy's national power grid operator; GOI Ministry of Industry U/S Giovanni Dell'Elce; and with the Chairman-elect of the Italian Energy Regulation Authority Alessandro Ortis.

ENEL, THE ELECTRICITY PRODUCTION CONGLOMERATE

3. Romano indicated that ENEL is planning to increase its domestic production/generation capacity, but also emphasized that Italy is now, and will remain heavily dependent on, energy imports. Romano indicated that construction of new plants is very difficult, as the NIMBY (Not-In-My-Back-Yard) problem is hard to overcome. Regarding natural gas, ENEL expects to benefit from new supplies from Algeria. According to Romano, it will be very difficult and expensive for Europe to implement the emissions reduction standards specified by the Kyoto agreement. U/S Card and Romano also discussed recent blackouts in the U.S. and Italy, stating that both were the result of operational failures rather than systemic or technical breakdown. Romano maintained that the principal cause of Italy's blackout lay with the Swiss electrical grid operator and its connection to the Italian grid.

GRTN, THE NATIONAL GRID OPERATOR

4. Bollino provided U/S Card with greater detail regarding the Italian blackout. He, too, maintained that the principal cause of the blackout was the slow reaction of the Swiss operator. Bollino asked U/S Card for his opinion regarding Italian requests to the Swiss operator to implement a protocol providing better cooperation. U/S Card suggested that the answer might lie in the extensive modeling and simulation of systems, as occurs in the U.S. Card and Bollino also discussed at length Italy's decision to do away with nuclear energy production in the late 1980s. In Bollino's view, this decision heavily penalized Italy, by depriving it of the cleanest and most cost-effective source of energy and forcing Italy to rely too heavily on energy imports. Bollino, a nuclear engineer, does not envision a return to nuclear energy in the foreseeable future because of negative Italian public opinion. He hopes, however, that Italy can still take a leadership role in nuclear research.

GOI MINISTRY OF INDUSTRY

5. U/S Dell'Elce, U/S Card's GOI counterpart, and his staff described ongoing liberalization in Italy. Italy considers reducing dependency on energy imports a national security issue. The GOI plans to increase electrical production by 12,000 Mgwts over the next 3-5 years, thus reducing imports by 20 percent. While the GOI also recognizes that nuclear energy is not an option in the foreseeable future, it is looking at opportunities to create nuclear plants abroad. (Note: The bulk of the energy Italy imports from France happens to be nuclear energy. End note.) Regarding power plants driven by liquid natural gas, Dell'Elce said that Italy faces a NIMBY problem. However, two new plants are scheduled to be built and come on line within the next five years.

ITALY'S NATIONAL ENERGY REGULATORY AUTHORITY

16. Energy Authority Chairman-elect Alessandro Ortis told U/S Card that a new law will soon better define the division of powers between the Energy Authority and the Ministry of Industry. This division is currently vague and has often been the source of friction between the two entities. Ortis considers his principal goals as incoming Authority Chairman to be enhanced security of the energy supply, creation of a

competitive energy market, and respect for the environment. Ortis hopes that future blackouts and other energy inefficiencies in Europe will be prevented by increased information exchange among EU operators, as currently each country is responsible for its own system and there is little or no international coordination. Ortis also voiced his disappointment that popular opposition prevented "rational consideration" of the nuclear option in Italy. While short-term energy supplies were also vital, Ortis is concerned that ignoring the nuclear option contributed to a lack of critical long-term energy planning.

A FOLLOW-UP INVITATION

17. U/S Card extended an invitation to Bollino, Ortis and Sergio Garribba (incoming Director General for Energy at the Ministry of Industry) for an informal late-January brainstorming session in Washington. (Note: Garribba will enter the position Ortis has just vacated when he moved on to his new job at the Energy Regulatory Authority. End note.) Bollino and Ortis have accepted in principle, and Bollino's office has already been pursuing the matter with Embassy's Econ section. They would like U/S Card to consider January 26 as a possible date for the meetings and envision a one and one-half day event to include high-level policy meetings as well as technical meetings.

COMMENT

18. In addition to concerns regarding Italy's excessive dependence on energy imports and the NIMBY problems, one common theme throughout the meetings was the private frustration of Italian energy officials over the inability to overcome public opposition to nuclear energy. In this respect, it is interesting that the three new key players in the Italian public energy sector - Bollino, Garribba and Ortis - are nuclear engineers by training. While we do not expect a change in Italian policies relating to nuclear power generation in the immediate future, we envision that active research will continue. These officials may try to influence longer-term momentum and public opinion aimed at reevaluating the role of advanced nuclear energy in Italy's future. END COMMENT.

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